

Report
of the
Examination of
Unity Health Plans Insurance Corporation
Sauk City, Wisconsin
As of December 31, 2003

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

June 10, 2004

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Honorable Jorge Gomez
Secretary, Midwestern Zone, NAIC
Commissioner of Insurance
Madison, Wisconsin

Commissioner:

In accordance with your instructions, a compliance examination has been made of
the affairs and financial condition of:

UNITY HEALTH PLANS INSURANCE CORPORATION
SAUK CITY, WISCONSIN

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Unity Health Plans Insurance Corporation (Unity or the company) was conducted in 2001, as of December 31, 2000. The current examination covered the intervening period ending December 31, 2003, and included a review of such 2004 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Affiliated Companies
- Growth of the Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comments on the remaining areas of the company's operations are contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

Unity Health Plans Insurance Corporation is a for-profit network model health maintenance organization (HMO) insurer. An HMO insurer is defined by s. 609.01 (2), Wis. Stat., as "a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618, Wis. Stat., that makes available to its enrolled participants, in consideration for predetermined fixed payments, comprehensive health care services performed by providers selected by the organization." Under the network model, the company provides care through contracts with clinics and otherwise independent physicians operating out of their separate offices. HMOs compete with traditional fee-for-service health care insurers.

Unity was incorporated on October 31, 1983 as HMO of Wisconsin Insurance Corporation (HMOW) and commenced business on January 1, 1984. United Wisconsin Services, Inc. (UWSI), now known as Crossroads Acquisition Corporation (formerly known as Cobalt), acquired HMOW on November 1, 1994, through a cash purchase of 100% of the stock of HMOW. At the same time, UWSI acquired the insurance business and HMOW assumed the benefit and provider contracts of U-Care HMO, Inc. The plan changed its name to Unity Health Plans Insurance Corporation effective April 1, 1995.

Unity offers a health care system with more than 939 primary care physicians (PCP) and in excess of 2,406 specialty physicians in a 20 county core service area. Unity currently separates its service area into two distinct operational areas, Dane County and counties other than Dane. Within Dane County, the University of Wisconsin (UW) Health Network provides the majority of the services with some additional coverage provided by non-UW entities for members selecting a PCP within Dane County. In the non-Dane portion of the company's service area, the Community Physicians' Network, Inc., an independent practice association (IPA), provided the majority of services through members of the IPA. However, beginning in the third quarter 2003, Unity began contracting directly with primary care and specialty care providers and clinics, as well as ancillary health care providers. As of July 1, 2004, all non-Dane provider contracts are Unity direct contracts.

Unity establishes a separate risk pool for each operational area. At enrollment, Unity members are required to select a PCP. The physical location of the PCP determines which risk pool the member is part of. The PCP coordinates the member's medical care and is responsible for providing routine health care to that member. Except for emergency care services and chiropractic services, non-Dane members must obtain a written referral from their PCP for specialty services. The exception to this rule relates to members receiving services from Mercy Health System, Agnesian Health Care, Beloit PHO and Watertown PHO. These members do not need a referral if they stay within the aforementioned provider systems. Dane members may self refer to any University of Wisconsin clinic/provider within Dane County. The company requires a member to obtain prior written authorization from Unity's medical director for treatment from a provider not participating with the plan.

A predetermined amount is allocated to three funds and three risk pools as funding for medical services provided by the networks under the provider agreements. The company pays participating providers on behalf of the networks from the funds, after deduction of withholds, (ranging from 0% to 10%) specified in the contracts. The following summarizes the risk arrangements for each of the networks in 2003 as outlined in the provider contracts with University Health Care, Inc. (UHC), and Community Physicians' Network, Inc. (CPN).

The Dane Network is funded by a percentage of premiums. The capitation is first applied to meet the contractual requirements of the Dane fund and the remainder is applied to the Dane shared risk pool. The Dane fund was funded at an agreed upon age/gender demographic capitation rate outlined in the provider agreement with UHC. University Hospital and Clinics is at full risk for the Dane fund, and the Dane shared risk pool represents a risk sharing arrangement between University Hospital and Clinics and Unity Health Plans Insurance Corporation.

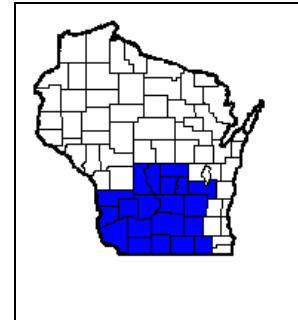
The Non Dane Network was historically funded at an agreed upon capitation rate as outlined in the medical services agreement with CPN. In 2003, CPN dissolved its business and Unity took 100% financial risk for the Non-Dane pool at that time.

A Unity pool was established in 2001 that included members choosing a PCP in the Monroe or Beloit areas. Funding for this pool is completed using the actual premium collected from these members. Unity has 100% financial risk for this pool.

The provider contract with UHC includes hold-harmless provisions for the protection of policyholders. The agreement with University of Wisconsin Hospitals and Clinics has a five-year term effective January 1, 2000. The contract automatically renews for additional five-year terms unless either party gives written notice to terminate upon 180 days (but not more than 210 days) prior to the end of any contract term. (See subsequent event section.)

Unity contracts directly with 44 hospitals to provide inpatient services. Hospitals are reimbursed on a negotiated per diem, diagnostic related groups rates (DRG) or discounted fee-for-service basis. The contracts include hold-harmless provisions for the protection of policyholders. A listing of the hospitals in which the participating physicians have admitting privileges is included as Addendum I of this report.

According to its business plan, Unity's service area is comprised of the following counties: Adams, Columbia, Crawford, Dane, Dodge, Fond du Lac, Grant, Green, Green Lake, Iowa, Jefferson, Juneau, Lafayette, Marquette, Richland, Rock, Sauk, Vernon, Walworth and Waushara.



The company offers comprehensive health care coverage, which may be changed by riders to include deductibles and co-payments. The following basic health care coverages are provided:

Ambulance	Chiropractic Services
Diagnostic Services	Prescription Drugs
Diabetic treatment & education	Durable Medical Equipment & Medical Supplies
Emergency Room Services	Hearing Exams
Home Health Care Services (limit of 50 per year)	Hospice (limit of 6 months per lifetime)
Inpatient Hospital services	Outpatient Hospital services
Kidney Disease Treatment	Maternity & Newborn Benefits
Mental Health Service (Psychological & AODA)	Oral Surgery – (specific procedures only)
Physician Services	Skilled Nursing Care (limit of 90 per covered confinement)
Therapy – physical, speech, occupational, cardiac rehab	Temporomandibular Treatment (TMJ)
Transplants	Urgent Care
Vision Care	Wellness programs education (limit of \$50 per year)

The HMO coinsurance plans have specified dollar co-payments for medical office visits, urgent care visits, chiropractic visits, routine vision exams, and emergency room visits. Durable Medical Equipment is covered with a 20% coinsurance. These co-payments and coinsurances do not apply towards the member's out of pocket maximum. The remaining covered services are paid with a 20% coinsurance that does apply to the member's out of pocket maximum. The co-payments, coinsurance and maximum out of pocket expense amounts vary by plan and are selected by each employer. For all group HMO plans, inpatient mental health and AODA coverage is limited to the lesser of 30 days or \$6,300. Outpatient mental health and AODA coverage is limited to \$1,800. For individual HMO plans that cover behavioral health, coverage is limited to a maximum of \$500 outpatient and \$5,000 inpatient. Co-payments or coinsurance does not apply to any behavioral health or AODA benefits.

In addition to the HMO products, Unity offers Point of Service (POS) plans. The indemnity portion of Unity's POS products was underwritten by United Wisconsin Insurance Company (UWIC) in 2000. Effective January 1, 2002, Blue Cross & Blue Shield of Wisconsin assumed 100% of UWIC's liability of the out-of-network benefits pursuant to an Assumption Reinsurance Agreement. Unity's two-tier point of service product requires co-payments for some benefits received from participating providers for the member. Coinsurance payments are required for services received from non-participating providers or for services received from a participating provider without an approved referral.

Unity offered TPA Plus products until June, 2003. With TPA Plus, the company assumed no risk and acted only as a third-party administrator for companies that self-fund their benefit plan.

Unity currently markets to groups and individuals. The company uses outside agencies and sales staff of Blue Cross Blue Shield of Wisconsin to procure new businesses. The majority of agent commissions are paid from \$3.50 to \$26.00 per contract per month. A small number of agents are paid a range from 1% to 10% on new and renewal business.

For new groups, Unity uses an actuarially determined base rate as a beginning point in premium rate determination. The base rate is adjusted to reflect benefit, trend, community,

Standard Industrial Classification (SIC), administrative expense load, and age/sex factors for new groups. The base rate is reviewed and adjusted semi-annually for inflation and utilization factors.

The plan uses an Adjusted Community Rating (ACR) methodology to determine group renewal rates. This methodology evaluates a group's incurred claim experience and makes adjustments for any high cost claims above the pooling point, for current group enrollment levels and for any benefit changes made. Incurred claim experience from a prior base period is trended to the current base period time frame. The current and prior years of incurred claims experience is melded by a weighting factor determined by total group size. A completion factor is applied to the incurred claims. The incurred claims are trended to the next contract year and blended with manual claims using a credibility factor determined by the number of member months of claims experience to yield projected claims for the next contract year. An administrative expense is added on to projected claims to obtain total premium needed for the next contract year. This methodology is reviewed and adjusted on an annual basis.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of twelve members. Directors are appointed by the respective partner in the joint venture to serve a one-year term. Officers are appointed by the board of directors. Members of Unity's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
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University Health Care Members:

Jane Barnett Middleton, WI	President, University Health Care	2005
Gary Eiler Madison, WI	CFO, UW Hospital & Clinics	2005
Lawrence Fleming, MD Middleton, WI	Medical Director, UW Hospital & Clinics	2005
Connie Kinsella Madison, WI	V.P. - Patient Business Services UW Medical Foundation	2005

Community Health Systems, LLC Members:

Peter Christman Madison, WI	Executive V.P., UW Medical Foundation	2005
Sue Pelatzke Madison, WI	V.P. - Quality Care, UW Medical Foundation	2005
James Roberts Madison, WI	Senior V.P. - Marketing & Communication, General Counsel and Secretary UW Hospital & Clinics	2005
Beth Zaher Waunakee, WI	V.P. - Marketing & Communication UW Medical Foundation	2005

WellPoint/Blue Cross Blue Shield of Wisconsin Members:

Penny Siewert Eagle, WI	General Manager – Individual & Small Groups Blue Cross Blue Shield of Wisconsin	2005
Rebecca Kapustay Milwaukee, WI	President & CEO, Blue Cross Blue Shield of Wisconsin	2005
Kathy Ledvina Menomonee Falls, WI	Senior V.P. – Health Operations & Med. Mgmt Blue Cross Blue Shield of Wisconsin	2005
Craig Steffes Wauwatosa, WI	V.P. & CFO, Blue Cross Blue Shield of Wisconsin	2005

Unity Health Plans:

Andrew Fabian Sauk City, WI	Acting President – Unity Health Plans Ex-officio	2005
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Officers of the Company

The officers appointed by the board of directors and serving at the time of this examination are as follows:

Name	Office	2003 Salary
Andrew T. Fabian	President	\$116,039*
Craig D. Steffes	Secretary	**
Gail L. Hanson	Treasurer	**

* Mr. Fabian was appointed as acting President in 2004. The salary above represents the total amount for the year; including, his other position as Provider Relations Director.

** These officers are employees of WellPoint Health Networks, Inc. or Blue Cross Blue Shield of Wisconsin. They are not directly compensated for their services as officers of Unity.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Executive Committee

Jane Barnett, Chair
Pete Christman
Rebecca Kapustay

Quality Committee

Lawrence Fleming, MD, Chair
Sue Pelatzke
Andy Fabian

Finance & Audit Committee

Gary Eiler, Chair
Pete Christman
Rebecca Kapustay
Craig Steffes
Jane Barnett

Marketing Committee

Andy Fabian, Chair
Jane Barnett
Penny Siewert
Beth Zaher
Stefanie Frelick
Jeff Nohl

The following are other committees, which have been set up by the company. The members at the time of the examination are as follows:

Provider Relations Committee

Andy Fabian, Chair
Pat Stokes
Jason Begalske
Cindy Blum
Brian Collien
Deanna Eveland
Mary Hack
Danielle Booth
Terrie Krumenauer
Kelli Salvo
Debbie Schiffman

Medical Reconsideration Committee

Katherine Marx, Chair
Angie Galle
Marvin Wiener, MD
Mary Hack
Sue Corfits
Lori Joyce
Timothy Bartholow, MD
David Martin
Lynn Odette, MD

Administrative Reconsideration Committee

Katherine Marx, Chair
Angie Galle
Mary Beach
Sara Kulich
Danielle Booth

Pharmacy Therapeutics Committee

Larry Fleming, MD, Chair
Lori Sterkowitz
John Brandabur, MD
Richard Day, MD
Bruce Edmondson, MD
John Bohlman, RPh
Tim Bartholow, MD
Larry Fleming, MD
Dean Keller, MD
Peggy Scallon, MD
Michael Thom, MD
Marvin Weiner, MD
Sue Pelatzke
Pat Cory, PharmD
Lee Vermeulen, RPh, MS
Steve Rough
Pam Kittleson
Susan Kleppin
Jennifer Schauer
Ashley Shields
MaryAnn Steiner

The HMO has employees to carry out the general operations of the organization. Additional services are provided through a management agreement with WellPoint Health

Networks, Inc. (WellPoint), or its affiliates. The company is billed at cost for services provided by WellPoint and its affiliates. Unity staff provided administrative services to Hometown Insurance Services, an affiliated insurance agency, which was dissolved in 2004.

Financial Requirements

The financial requirements for an HMO under s. Ins 9.04, Wis. Adm. Code, are as follows:

	Amount Required
1. Minimum capital or permanent surplus	Either: \$750,000, if organized on or after July 1, 1989 or \$200,000, if organized prior to July 1, 1989
2. Compulsory surplus	The greater of \$750,000 or: If the percentage of covered liabilities to total liabilities is less than 90%, 6% of the premium earned in the previous 12 months; If the percentage of covered liabilities to total liabilities is at least 90%, 3% of the premium earned in the previous 12 months
3. Security surplus	The greater of: 140% of compulsory surplus reduced by 1% of compulsory surplus for each \$33 million of additional premiums earned in excess of \$10 million or 110% of compulsory surplus
4. Operating funds	Funds sufficient to finance any operating deficits in the business and to prevent impairment of the insurer's initial capital or permanent surplus or its compulsory surplus

Covered liabilities are those due to providers who are subject to statutory hold-harmless provisions.

In addition, there is a special deposit requirement equal to the lesser of the following:

1. An amount necessary to maintain a deposit equaling 1% of premium written in this state in the preceding calendar year;
2. One-third of 1% of premium written in this state in the preceding calendar year.

The company has satisfied this requirement for 2003 with a deposit of \$2 million with the State Treasurer.

Insolvency Protection for Policyholders

Under s. Ins 9.04 (6), Wis. Adm. Code, requires HMOs to either maintain compulsory surplus at the level required by s. Ins 51.80, Wis. Adm. Code, or provide for the following in the event of the company's insolvency:

1. Enrollees hospitalized on the date of insolvency will be covered until discharged; and
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

The company has met this requirement through its reinsurance contract, as discussed in the Reinsurance section of this report.

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is WellPoint Health Networks, Inc. (WellPoint), which owns Crossroads Acquisition Corp. (Crossroads). Below is a brief description of the significant affiliates with which the Company has transactions. The organizational chart, which depicts the relationships among the affiliates in the holding company system, as of December 31, 2003, follows the description.

WellPoint Health Networks Inc.

WellPoint Health Networks Inc., is a publicly traded health care company serving approximately 15.4 million medical members and approximately 46 million specialty members nationwide. WellPoint is included in the S & P 500 and is traded on the New York Stock Exchange under the symbol WLP.

The December 31, 2003 audited consolidated financial statements for WellPoint reported assets of \$14.8 billion, liabilities of \$9.4 billion, and stockholders' equity of \$5.4 billion. Operations for 2003 produced net income of \$935 million on revenues of \$20.4 billion.

Crossroads Acquisition Corp.

Crossroad Acquisition Corp. (Crossroads) is the insurance holding company of the Wisconsin-based companies of WellPoint. Crossroads, a wholly owned subsidiary of WellPoint, merged with Cobalt Corporation (Cobalt), whereas, as of September 24, 2003, Crossroads was the surviving entity of the merger. As a result of the merger, the former subsidiaries of Cobalt became ultimately owned by WellPoint. Cobalt was formerly known as United Wisconsin Services, Inc.(UWS). UWS was publicly traded on the New York Stock Exchange under the symbol UWZ until March 2001. Effective March 23, 2001, UWS changed its name to Cobalt Corporation upon completion of the conversion of Blue Cross & Blue Shield United of Wisconsin (BCBSUW) from a service insurance corporation to a for-profit, stockholder-owned corporation and the combination of BCBSUW and UWS. Subsequently, Cobalt was traded on the New York Stock Exchange under the symbol CBZ until its merger with Crossroads.

Blue Cross Blue Shield of Wisconsin

Blue Cross Blue Shield of Wisconsin (BCBSWi), formerly known as Blue Cross & Blue Shield United of Wisconsin, was a nonstock, service insurance corporation, incorporated in 1939, and organized pursuant to Chapter 613 of the Wisconsin Statutes. In June 1999, the BCBSWi Board of Directors announced its intention to convert BCBSWi from a nonprofit, service insurance corporation to a stockholder-owned corporation. An application for a plan of conversion was filed with the Wisconsin Office of the Commissioner of Insurance on June 14, 1999. On March 28, 2000, Commissioner O'Connell approved a plan of conversion subject to a detailed list of conditions. On March 19, 2001, the Commissioner recognized BCBSWi's application as complete and the conversion under an Order dated March 28, 2000 was approved. Effective March 23, 2001, BCBSWi converted to a stockholder-owned insurance corporation and was organized pursuant to Chapter 611 of the Wisconsin Statutes. In addition to the conversion, BCBSWi became a wholly owned subsidiary of Cobalt through a combination of BCBSWi and Cobalt on March 23, 2001.

As of December 21, 2003, BCBSWi's statutory financial statements reported assets of \$301.5 million, liabilities of \$143.8 million, and total capital and surplus of \$157.7 million. Operations for 2003 produced net income of \$43 million (includes gain from the sale of American Medical Security) on revenues of \$658.2 million.

HMO-W, Inc.

HMO-W, Inc. (HMO-W), is a general business corporation organized pursuant to Chapter 180 of the Wisconsin Statutes. It serves as a holding company for Unity and was the former holding company of Hometown Insurance Services, Inc., an insurance brokerage company, which was dissolved as a corporation on February 2, 2004.

Meridian Resource Company, LLC

Meridian Resource Company (MRC) is a wholly owned subsidiary of Compcare Health Services Insurance Corporation. The company is a diversified health care cost containment consulting and auditing firm. Services provided include audit services, and investigation and recovery services. As of December 31, 2003, MRC's GAAP-basis unaudited

balance sheet reported assets of \$2.9 million, liabilities of \$1.2 million, and surplus of \$1.7 million. The unaudited income statement reflected net income of \$0.5 million on revenues of \$9.6 million.

United Wisconsin Proservices

United Wisconsin Proservices (Proservices) is a wholly owned subsidiary of Compcare Health Services Insurance Corporation. Proservices develops services and installs software, which allows health care providers and payers to transmit electronic claims, and provides real time access to patient and claim status. Proservices offers this electronic data interchange service to health care providers via their Proservices Health Information Network (PHIN).

As of December 31, 2003, Proservices GAAP-basis unaudited balance sheet reported assets of \$5.3 million, liabilities of \$2.1 million, and equity of \$3.2 million. The unaudited income statement reflected net income of \$0.3 million on revenues of \$5 million.

Valley Health Plan, Inc.

Valley Health Plan, Inc. (Valley), is a Wisconsin stock insurance corporation organized pursuant to ch. 611, Wis. Stats. It operates as a health maintenance organization in the State of Wisconsin.

As of December 31, 2003 the company's statutory financial statements reported assets of \$21.9 million, liabilities of \$12.7 million, and net worth of \$9.3 million. Operations for 2003 produced net income of \$294 thousand on total revenues of \$81.6 million.

Compcare Health Services Insurance Corporation

Compcare Health Services Insurance Corporation (Compcare) is a for-profit network model health maintenance organization (HMO) insurer, incorporated January 1, 1984, under the provisions of ch. 611, Wis. Stat.

As of December 31, 2003, the company's statutory financial statements reported assets of \$156.9 million, liabilities of \$73.2 million, and net worth of \$83.7 million. Operations for 2003 produced net income of \$14 million on total revenues of \$384.6 million.

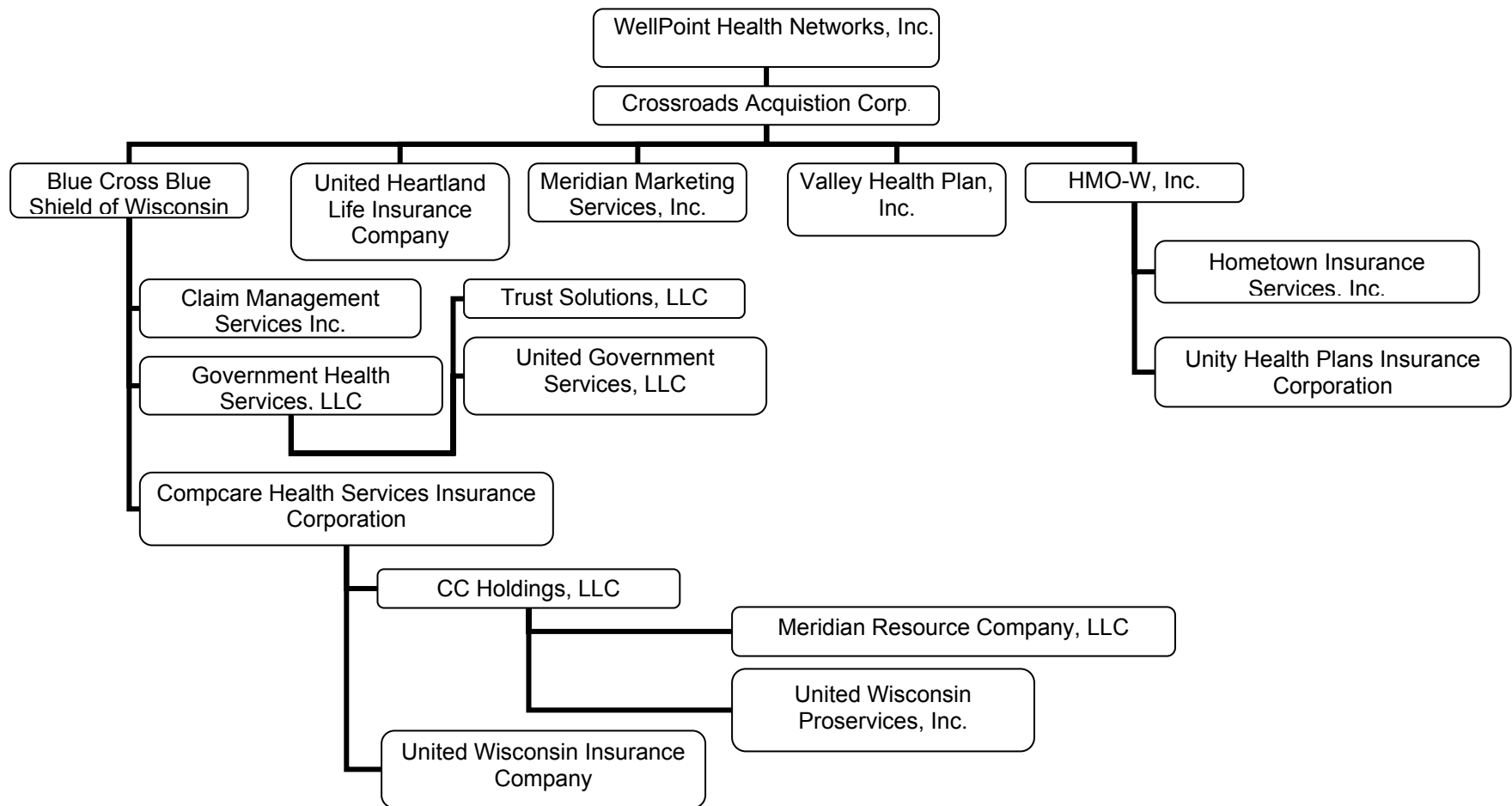
Affiliated Agreements

Unity Health Plans Insurance Corporation has entered into numerous affiliated agreements. These agreements are described below:

- Second Amended and Restated Joint Venture Agreement among Unity, BCBSWi, Cobalt (n/k/a Crossroads), University Health Care, Inc., University Community Clinics, Inc. and Health Professionals of Wisconsin, Inc., effective January 1, 2000. This agreement provides that the parties agree to coordinate the design and marketing of various managed care products. This agreement has a five-year term.
- Administrative Service Agreement between Cobalt (n/k/a Crossroads) and Unity for the provision of actuarial, accounting, financial reporting, management information, legal, investment management, financial audit, information systems support, corporate communications, medical director, medical consultant, health policy/pricing services and utilization management in connection with the joint ventures.
- Administrative Service Agreement with Blue Cross Blue Shield of Wisconsin, under which BCBSWi underwrites the indemnity portion of Unity's POS products.
- Federal Income Tax Allocation agreement with WellPoint and various affiliates for the purpose of establishing an equitable distribution of the tax expense (benefit) resultant from filing consolidated returns. Unity is required to reimburse WellPoint within 10 days after assessments for estimated tax payments.
- Administrative Service Agreement between Unity and Meridian for subrogation and worker's compensation recovery services to be provided by Meridian.
- Administrative Service Agreement between Unity and Meridian for "Best of Savings" audit programs. This audit program is used to optimize savings by screening all hospital claims and selecting the service that is likely to offer the highest return.
- Administrative Service Agreement between Unity and United Wisconsin Proservices, Inc., under which Unity receives services which enable it to receive UB 92 and HCFA 1500 claim data by electronic submission.
- Administrative Service Agreement between Unity and Valley Health Plan, Inc., under which Unity allocates costs to Valley for services provided by Unity's President and Director of Finance.

Holding Company Chart

As of December 31, 2003



V. REINSURANCE AND CORPORATE INSURANCE

The company has reinsurance coverage under the contract outlined below:

Reinsurer:	Standard Security Life Insurance Company of New York
Type:	Specific Excess of Loss Reinsurance
Effective date:	May 1, 2003
Retention:	\$225,000 per member per agreement term
Coverage:	Hospital inpatient services, \$1,000,000 per member per agreement term. Lifetime maximum per member is \$2,000,000.
Premium:	\$.84 per member per month with a minimum premium of \$450,000 to be paid for the agreement term
Termination:	May 1, 2004

The reinsurance policy has an endorsement containing the following insolvency provisions:

1. Standard Security Life Insurance Company of New York will continue plan benefits for members who are confined in an acute-care hospital on the date of insolvency until their discharge.
2. Standard Security Life Insurance Company of New York will continue plan benefits for any member insured plan until the end of the contract period for which premiums have been paid to plan by that member or on his behalf.
3. Standard Security Life Insurance Company of New York will make available to all members for a period of 30 days, without evidence of insurability, a replacement coverage of the same benefit schedule and rates as then being offered by the reinsurer to other prospective insured's within the state.

Coverage under the above endorsement is subject to a maximum total benefit of \$1 million.

In addition, the company is provided with corporate insurance coverage under the contracts listed below:

Type of Coverage	Policy Limits
Directors' and officers' liability	\$25,000,000
Agents' Errors & Omissions	2,000,000
Fiduciary Liability	20,000,000
Commercial Crime/Fidelity Bond	10,000,000
General Liability	2,000,000
Automobile	1,000,000
Umbrella	25,000,000
Managed Care Liability	25,000,000
Personal Property	10,000,000 per occurrence
Workers' Compensation	1,000,000 each accident

The above coverages were obtained through various insurers which are licensed in Wisconsin, or on the Commissioner's current list of approved surplus lines insurers.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2003, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company for the period under examination. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Net Worth per Examination."

Unity Health Plans Insurance Corporation
Assets
As of December 31, 2003

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$42,284,134	\$	\$42,284,134
Stocks:			
Common stocks	2,605,189		2,605,189
Real Estate:			
Properties occupied by the company	2,249,738		2,249,738
Cash, cash equivalents and short-term investments	3,074,357		3,074,357
Investment income due and accrued	701,907		701,907
Uncollected premiums and agents' balances in the course of collection	1,183,598	11,532	1,172,066
Amounts recoverable from reinsurers	171,011		171,011
Net deferred tax asset	3,098,156	1,459,228	1,638,928
Electronic data processing equipment and software	4,193,836	4,093,939	99,897
Furniture and equipment, including health care delivery assets	279,143	279,143	
Receivables from parent, subsidiaries and affiliates	1,045	1,045	
Health care and other amounts receivable	2,064,065	164,768	1,899,297
Other assets nonadmitted	230,762	230,762	
Other current assets	15,311	14,310	1,001
State income tax recoverable	526,324		526,324
Total assets	<u>\$62,678,576</u>	<u>\$6,254,727</u>	<u>\$56,423,849</u>

Unity Health Plans Insurance Corporation
Liabilities and Net Worth
As of December 31, 2003

Claims unpaid		\$16,392,056
Accrued medical incentive pool and bonus payments		3,530,726
Unpaid claims adjustment expenses		607,617
Premiums received in advance		5,528,875
General expenses due or accrued		3,937,753
Amounts withheld or retained for the account of others		2,532
Amounts due to parent, subsidiaries and affiliates		<u>917,321</u>
Total liabilities		30,916,880
Common capital stock	\$ 1,000	
Gross paid in and contributed surplus	9,046,584	
Unassigned funds (surplus)	<u>16,459,385</u>	
Total capital and surplus		<u>25,506,969</u>
Total liabilities, capital and surplus		<u>\$56,423,849</u>

Unity Health Plans Insurance Corporation
Statement of Revenue and Expenses
For the Year 2003

Net premium income		\$232,041,606
Aggregate write-ins for other non-health revenues		<u>32,593</u>
Total revenues		232,074,199
Medical and Hospital:		
Hospital/medical benefits	\$ 62,416,847	
Other professional services	84,937,143	
Outside referrals	0	
Emergency room and out-of-area	9,682,474	
Prescription drugs	39,124,086	
Aggregate write-ins for other medical and hospital	0	
Incentive pool and withhold adjustments	<u>4,604,142</u>	
Subtotal	200,764,692	
Less		
Net reinsurance recoveries	<u>327,347</u>	
Total medical and hospital	200,437,345	
Claims adjustment expenses	3,587,972	
General administrative expenses	<u>17,817,305</u>	
Total underwriting deductions		<u>221,842,622</u>
Net underwriting gain or (loss)		10,231,577
Net investment income earned	2,215,780	
Net realized capital gains or (losses)	<u>410,353</u>	
Net investment gains or (losses)		<u>2,626,133</u>
Net income or (loss) before federal income taxes		12,857,710
Federal and foreign income taxes incurred		<u>3,436,611</u>
Net income (loss)		<u>\$ 9,421,099</u>

Unity Health Plans Insurance Corporation
Capital and Surplus Account
As of December 31, 2003

Capital and surplus prior reporting year		\$17,879,324
Net income or (loss)	\$ 9,421,099	
Net unrealized capital gains and losses	(171,793)	
Change in net unrealized foreign exchange capital gain or (loss)	0	
Change in net deferred income tax	(144,612)	
Change in nonadmitted assets	(1,714,399)	
Surplus Adjustments:		
Paid in	<u>237,350</u>	
Net change in capital and surplus		<u>7,627,645</u>
Capital and surplus end of reporting year		<u>\$25,506,969</u>

Unity Health Plans Insurance Corporation
Statement of Cash Flows
As of December 31, 2003

Premiums collected net of reinsurance		\$232,070,765
Net investment income		2,533,586
Miscellaneous income		32,593
Total		234,636,944
Less:		
Benefit and loss related payments	\$198,784,384	
Commissions, expenses paid and aggregate write-ins for deductions	19,703,989	
Federal and foreign income taxes paid (recovered)		
\$0 net tax on capital gains (losses)	<u>3,436,611</u>	
Total		<u>221,924,984</u>
Net cash from operations		12,711,960
Proceeds From Investments Sold, Matured or Repaid:		
Bonds	\$16,390,929	
Stocks	<u>8,120,000</u>	
Total investment proceeds		24,510,929
Cost of Investments Acquired - Long-Term Only:		
Bonds	23,141,152	
Stocks	10,725,189	
Real estate	<u>54,929</u>	
Total investments acquired		<u>33,921,270</u>
Net cash from investments		(9,410,341)
Cash Provided/Applied:		
Borrowed funds received	(510,045)	
Other cash provided (applied)	<u>(2,354,089)</u>	
Net cash from financing and miscellaneous sources		<u>(2,864,134)</u>
Net change in cash and short-term investments		437,485
Beginning of year (cash and short-term investments)		<u>2,636,872</u>
End of year (cash and short-term investments)		<u>\$ 3,074,357</u>

Growth of Unity Health Plans Insurance Corporation

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income (Loss)
2003	\$56,423,849	\$30,916,880	\$25,506,969	\$232,041,606	\$200,437,345	\$ 9,421,099
2002	46,853,390	28,974,066	17,879,324	197,043,026	173,387,622	4,360,968
2001	43,062,441	29,110,914	13,951,527	168,266,940	146,049,163	5,522,284
2000	38,544,077	27,603,131	10,940,946	158,774,606	149,923,252	(2,580,809)

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2003	4.0%	86.4%	9.1%	4.2%
2002	2.2	88.0	9.4	4.3
2001	3.2	86.8	9.4	-7.8
2000	-1.6	97.0	8.6	-3.9

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2003	80,178	222.67	3.35
2002	76,919	215.23	3.17
2001	73,725	218.54	3.14
2000	79,969	200.21	3.36

Per Member Per Month Information

	2003	2002	Percentage Change
Premiums:			
Commercial	\$245.50	\$220.55	11.3%
Medicare Supplement	294.94	268.64	9.8
Medicaid	127.25	119.48	6.5
Expenses:			
Hospital/medical benefits	\$ 64.69	\$123.57	-47.6%
Other professional services	88.04	30.46	189.0
Emergency room and out-of-area	10.04	0.00	NA
Other medical and hospital	40.55	36.12	12.3
Incentive pool and withhold adjustments	4.77	0.00	NA
Less: Net reinsurance recoveries	0.34	-0.01	-3565.0
Total medical and hospital	207.75	190.16	9.3
Claims adjustment expenses	3.72	3.25	14.5
General administrative expenses	18.47	17.34	6.5
Total underwriting deductions	<u>\$229.94</u>	<u>\$210.75</u>	9.1

In 2003, Unity reported its largest net income of the three-year period. The increased net income is primarily due to increased premium rates and increased enrollment. Enrollment increased in 2003 despite the company exiting the Federal Employee Health Benefit Plan in January 2003. Unity exited this plan primarily due to a trend of underwriting losses for this group of members.

During 2003, Unity began negotiating provider contracts directly with providers versus using an individual practice association, Community Physicians Network (CPN). Unity's management believes it can manage the provider network at costs lower than what was paid CPN on a per member/per month basis. The savings for Unity managing its own provider network will be reflected in future financial results.

Reconciliation of Capital and Surplus per Examination

The examination made no adjustments to the company's' reported capital and surplus at December 31, 2003.

The following is a reconciliation of reclassifications as determined by the examination:

	Debit	Credit
Premiums received in advance	\$2,228,157	\$
Remittance and items not allocated		2,228,157
Cash, cash equivalents and short-term investments	2,605,189	
Common Stocks	<u> </u>	<u>2,605,189</u>
Total reclassifications	<u>\$4,833,346</u>	<u>\$4,833,346</u>

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were seven specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Executive Compensation—It is recommended that the company complete the Report on Executive Compensation in accordance with its instruction.
Action—Compliance.
2. Holding Company—It is recommended that the company put procedures in place to ensure all material contracts are correctly listed on the Form B registration statement.
Action—Compliance.
3. Affiliated Agreements—It is recommended that the company draft formalized agreements for the rental of property to affiliated companies.
Action—Compliance.
4. Claims Payable—It is recommended the company correct the accounting for this discount using the guidelines in Statement of Statutory Accounting Principles (SSAP) No. 3.
Action—Compliance.
5. Claims Payable—It is recommended that the company correct the accounting for this transaction using the guidelines in SSAP No. 3.
Action—Compliance.
6. Disaster Recovery Plan—It is recommended that the company update its disaster recovery plan to include more detailed information on the company's recovery plans in the event of a disaster. Further, it is recommended that the company establish a procedure to review, update, and test its disaster recovery plan annually.
Action—Partial compliance, see comments in the summary of current examination results.
7. Security Review—It is recommended that the company establish formal policies for the periodic review of security violation logs.
Action—Noncompliance.

Summary of Current Examination Results

Management and Control

Unity has established a procedure for disclosure of conflicts of interest for its officers, directors, and responsible employees in compliance with the directive of the Commissioner of Insurance. As part of the examination a review was performed to insure all officers and directors are complying with the company's conflict of interest disclosure requirements. This review noted that conflict of interest statements were not completed by outside officers for 2003. It is recommended that Unity continue to maintain compliance with its conflict of interest disclosure requirements for its Board of Directors, officers and designated employees.

Invested Assets

The examiners review of the \$2.6 million in common stock reported in the annual statement noted that this is a money market mutual fund and should have been reported on Schedule DA – Part 1 as a short-term investment. This resulted in an examination reclassification of \$2.6 million from Common Stock to Short-Term Investments. This reclassification is reflected in the section of this report captioned "Reconciliation of Capital and Surplus per Examination." It is recommended that Unity properly classify money market mutual funds in accordance to the NAIC's Purposes and Procedures Manual of the NAIC Securities Valuation Office. Examiner does note that Unity has properly classified this investment in subsequent filings with the Office of the Commissioner of Insurance.

Security Deposit

In accordance with s. 609.98, Wis. Stat., before April 1st of each following year, an HMO is to deposit under s. 601.13, Wis. Stat., an amount that is at least equal to the lesser of the following:

- (1) An amount necessary to establish or maintain a deposit equaling 1% of premiums written in this state by the company in the preceding calendar year, or
- (2) One-third of 1% of the premiums written in this state by the company in the preceding calendar year.

As of April 1, 2004, Unity had not increased its special deposit to an amount that would bring the company into compliance with the requirement. It is recommended that the company establish procedures to calculate the security deposit prior to April 1st of each year to ensure compliance with s. 609.98, Wis. Stat.

Premium

During the review of Unity's premium processing and application of premium payments examiners noted that payments are applied on the "first-in first-out" (FIFO) method. Under this method it is difficult for Unity to adequately keep track of which months and which members employers are actually paying for. The current design does not lend itself to adequate tracking of older balances and group enrollees. It is recommended that Unity make necessary changes so that the aging of premium receivables will more accurately reflect any balances over 90 days past due and report them in accordance with NAIC Accounting Practices and Procedures Manual.

The examiners review of Premiums Received in Advance noted that the balance contained remittances that have not been allocated to a group or individual, i.e., payments have not been identified to be applied to a specific account when received. These remittances meet the definition stated in Statement of Statutory Accounting Principle (SSAP) 67 for Remittances and Items not Allocated. This resulted in an examination reclassification of \$2.2 million from Premiums Received in Advance to Remittances and Items not Allocated. This reclassification is reflected in the section of this report captioned "Reconciliation of Capital and Surplus per Examination." It is recommended that Unity comply with the NAIC's Accounting Practices and Procedures Manual SSAP 67 and the NAIC's Annual Statement Instructions – Health for reporting of Remittances and Items not Allocated.

The examiner review of Unity's cash processing noted that checks received with new applications are not deposited or recorded until the Underwriting Department has approved the application. Unity does maintain these checks in a secure location. These checks meet the definition of Remittances and Items not allocated in accordance with SSAP 67; therefore, these remittances should be recorded in the annual statement as Remittances and Items not Allocated.

An adjustment was not made for the purposes of this examination due to the immateriality of the amounts involved. It is recommended that Unity establish a procedure to properly record checks received with applications in accordance with the NAIC's Accounting Practices and Procedures Manual SSAP 67 and the NAIC's Annual Statement Instructions – Health.

Financial Statements

The review of the annual statement disclosed the errors listed below:

- Exhibit 8 – Summary of Transactions with Providers that totals direct medical expense payments did not trace to the Exhibit of Premiums, Enrollment and Utilization. There was a variance of \$327,347 as a result of Exhibit 8 being completed net of reinsurance.
- Review of the Notes to the Financial Statements and Exhibit of Capital Gains/(Losses) noted that Unity reported \$31,667 as realized losses in the notes but did not record any losses on the exhibit.
- Schedule A, Part 1 – Real Estate Owned did not disclose the Fair Value Less Encumbrances, Gross Income Earned Less Interest Incurred on Encumbrances, and Taxes Repairs and Expenses Incurred on Real Estate.
- Schedule DA, Part 1 – Short-term Investments Owned did not disclose the proper NAIC Designation for various short-term investments.

It is recommended that the company properly complete the annual statement in accordance with the NAIC Annual Statement Instructions – Health.

Agreements

During the review of Unity's various agreements the following was noted:

- Unity's Investment Management and Meridian Resource Company agreements providing investment services and subrogation and workers compensation claim recover services did not include an effective date.
- Unity's agreement with United Wisconsin Proservices, Inc. for electronic submission of UB 92 and HCFA 1500 claims data did not include the date the parties signed the agreement.
- Unity's agreement with Blue Cross Blue Shield of Wisconsin for underwriting the indemnity portion of Unity's POS Products was not signed by the parties. In addition, this agreement was not filed with the Office of the Commissioner of Insurance under s. Ins 40.04, Wis. Adm. Code. In accordance with s. Ins 40.04, Wis. Adm. Code, an insurer must submit agreements of this type to the "...commissioner 30 days before the domestic insurer enters into the transaction."

It is recommended the company include agreement terms, effective dates, sign and date, and file agreements for non-disapproval in the timeframe permitted by s. Ins 40.04, Wis. Adm. Code.

Disaster Recovery

The prior examination recommended that the company update its disaster recovery plan to include more detailed information on the company's recovery plans in the event of a disaster. The prior examination also recommended that the company establish procedures to review, update, and test its disaster recovery plan annually. During the period under review the company properly updated its plan annually. However, as a result of the integration activities due to the WellPoint merger, several infrastructure changes occurred that have not been incorporated into the current disaster recovery plan. The company also has not had an opportunity to complete a test of its preparedness to provide reasonable assurance that the plan addresses its needs. Unity management has indicated they expect to complete its disaster recovery plan by the end of 2004 and anticipates testing its preparedness shortly thereafter. It is recommended that the company complete its disaster recovery plan to incorporate changes as a result of its merger with WellPoint. Once completed, the plan should be tested and updated on an annual basis.

Security Monitoring

The prior examination recommended that the company establish formal policies for the periodic review of security violation logs. This recommendation was expected to address security violations occurring from internal users as well as external attempts. Shortly after developing policies and procedures to address this recommendation, the company announced plans to merge with WellPoint that interrupted the implementation of these procedures. It is again recommended that the company establish formal policies for the periodic review of security violation logs. Examiner noted that Unity is currently in the process of adopting WellPoint's security policies and procedures that are expected to address this recommendation.

Compulsory Surplus Requirement

As noted in the section of this report captioned "Financial Requirements," HMOs are required to maintain minimum compulsory surplus. The company's calculation as of

December 31, 2003:

Assets	\$56,423,849	
Less:		
Special deposit	2,053,802	
Liabilities	<u>30,916,880</u>	
Total		\$23,453,167
Net premium earned	232,041,606	
Compulsory factor	<u>3%</u>	
Compulsory surplus		<u>6,961,248</u>
Compulsory Excess		<u>\$16,491,919</u>

VIII. CONCLUSION

Unity's 2003 annual statement reported assets of \$56,423,849, liabilities of \$30,916,880 and surplus of \$25,506,969. Operations for 2003 produced a net income of \$9,421,099. The net income is primarily the result of increased premium rates and increased membership. In addition, Unity exited the Federal Employees Health Benefit Plan due to this line of business having a history of underwriting losses.

Unity primarily operates under a joint venture agreement. The agreement was effective January 1, 2000, and has a term of five years. Unity has separated its service area into two distinct operation areas, Dane County and Non-Dane. Within Dane County, the UW Health Network provides the majority of the services. In the Non-Dane portion of the Unity's service area, Unity began contracting directly with providers in 2003 in an effort to lower costs. Prior to mid-2003 Unity provided the majority of its services through an independent practice association, Community Physicians' Network.

Unity complied with five of the seven prior recommendations, partially complied with one recommendation, and one recommendation resulted in non-compliance. The partially complied and non-compliance recommendations were a result of Unity's holding company Cobalt merging with WellPoint in September 2003. Nine recommendations were made as a result of this examination regarding management and control, invested assets, premium, financial statements, agreements, disaster recovery, and security monitoring.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 27 - Management and Control—It is recommended that Unity continue to maintain compliance with its conflict of interest disclosure requirements for its Board of Directors, officers and designated employees.
2. Page 27 Invested Assets—It is recommended that Unity properly classify money market mutual funds in accordance to the NAIC's Purposes and Procedures Manual of the NAIC Securities Valuation Office.
3. Page 28 Security Deposit—It is recommended that the company establish procedures to calculate the security deposit prior to April 1st of each year to ensure compliance with s. 609.98, Wis. Stat.
4. Page 28 Premium—It is recommended that Unity make necessary changes so that the aging of premium receivables will more accurately reflect any balances over 90 days past due and report them in accordance with NAIC Accounting Practices and Procedures Manual.
5. Page 28 Premium—It is recommended that Unity comply with the NAIC's Accounting Practices and Procedures Manual SSAP 67 and the NAIC's Annual Statement Instructions – Health for reporting of Remittances and Items not Allocated.
6. Page 29 Premium—It is recommended that Unity establish a procedure to properly record checks received with applications in accordance with the NAIC's Accounting Practices and Procedures Manual SSAP 67 and the NAIC's Annual Statement Instructions – Health.
7. Page 29 Financial Statements—It is recommended that the company properly complete the annual statement in accordance with the NAIC Annual Statement Instructions – Health.
8. Page 29 Agreements—It is recommended the company include agreement terms, effective dates, sign and date, and file agreements for non-disapproval in the timeframe permitted by s. Ins 40.04, Wis. Adm. Code.
9. Page 30 Disaster Recovery—It is recommended that the company complete its disaster recovery plan to incorporate changes as a result of its merger with WellPoint. Once completed, the plan should be tested and updated on an annual basis.
10. Page 30 Security Monitoring—It is again recommended that the company establish formal policies for the periodic review of security violation logs.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Jean Suchomel	Insurance Financial Examiner
Tim VandeHey	Examiner - Advanced

Respectfully submitted,

Amy J. Wolff
Examiner-in-Charge

XI. SUBSEQUENT EVENT

On July 1, 2004, University Health Care, Inc. (UHC) and its affiliates announced it has entered into an agreement to purchase Unity Health Plans Insurance Corporation (Unity) by the close of 2004 pending approval from the Office of the Commissioner of Insurance. This transaction is a result of UHC exercising its option in the joint venture agreement with Unity, UHC, and Community Health Systems (CHS). The purchase price is to be based on the GAAP net worth of Unity plus a premium, as stated in the joint venture agreement, at the time of the closing. In addition, the acquiring party anticipates that this change in ownership will not affect employers or members covered by Unity insurance policies.

Addendum 1

List of contracting hospitals:

Adams County Memorial Hospital	Beaver Dam Community Hospital
Beloit Memorial Hospital	Berlin Memorial Hospital
Boscobel Area Health Care	Central Community Hospital
Children's Hospital of Wisconsin	Columbus Community Hospital
Divine Savior Healthcare, Inc.	Fort Atkinson Memorial Health Services
Grant Regional Health Center	Hess Memorial Hospital
Luther Hospital	Memorial Community Hospital
Memorial Hospital of Lafayette County	Mercy Medical Center-Dubuque
Meriter Hospital	Meriter Newborn Nursery
Prairie du Chien Memorial Hospital	Reedsburg Area Medical Center
Richland Hospital	Ripon Medical Center
Riverside Medical Center	Riverview Hospital
Sacred Heart Hospital	Sauk Prairie Memorial Hospital
Southwest Health Center	St. Agnes Hospital
St. Clare Hospital and Health Services	St. Joseph's Community Health Services, Inc.
St. Joseph's Hospital	St. Marys Hospital Medical Center
Stoughton Hospital	The Finley Hospital
The Monroe Clinic Hospital	Tomah Memorial Hospital
UW Health Outreach Riverview Hospital	UW Health-UW Children's Hospital
UW Health-UW Hospital & Clinics	Upland Hills Health
Vernon Memorial Hospital	Watertown Memorial Hospital
Waupun Memorial Hospital	Wild Rose Community Memorial Hospital